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INDUSTRIALIZATION IN ECONOMICALLY LESS DEVELOPED COUNTRIES

By Dr. János SZITA,
Director Hungarian Planning Office
Budapest, Hungary

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INDUSTRIALIZATION IN ECONOMICALLY LESS DEVELOPED COUNTRIES

by
Dr. János SZITA, Director
Hungarian Planning Office
Budapest, Hungary

1. The economically less developed countries are generally considered to be on an earlier stage of economic development than the industrialised countries of to-day. But that is not quite true. The situation of the developing countries now essentially differs from the situation in which the highly industrialised countries of our time were a couple of centuries ago. An overwhelming part of the underdeveloped countries were entirely dependent in the political as well as economic sense of the word and many of them were even some years ago under colonial rule. Distorted economy, a very low level of economic activity and standard of life is the inheritance of the recent past.

2. In examining the way of future development of the developing countries one may see a multiple dependence of these countries. They are entirely dependent in respect of foreign trade. Most of these countries have a monocultural economy, their export consists of a few commodities, mainly of raw materials and foodstuffs. On the basis of the experiences of the last decades one may say that the export goods of the developing countries make up the least dynamical sector of the world's trade. This situation will hardly change in the future, since one of the characteristics of the technical revolution of our age is the fact that industry, as compared to the value produced, needs less raw material, and consequently the demand for raw materials relatively or - in the case of some products - absolutely diminishes. The participation of the economically less developed countries in the world's export exclusive of the socialist countries diminished from 28.3 % in 1953 to 24.1 % in 1960. If we consider that in most of the developing countries half of the national income, or sometimes three - fourths, is realised through foreign trade, we may see one of the major difficulties of the economic development of these countries. And if we realise that the developing countries meet their economic requirements almost exclusively by way of import - even many agricultural countries import most foodstuffs for the provision of the population - their economic situation and dependence in this respect appeares more than critical. The prevention of a further deterioriation of the situation and the assuring of the future development require the liquidation of the monocultural structure, the diversification of the economy on the line of industrialisation.

3. Dependence has come about also in the domain of technics. The developing countries are dependent in regard to the procurement of capital goods necessary for economic development. In consequence of the adoption of the system of technical standards most of the developing countries are dependent on the machine and spare part supplies of the former mother countries. Orientation to new markets of supply is therefore greatly rendered difficult by the standard system applied in many former colonies. This aspect of dependence too can only be liquidated through extensive industrialisation. Economic dependence appears also in many other respects, as for example: foreign exchange, provision with manufactured goods, transport, specialists, and last but not least in the fact that developing countries do not dispose freely of considerable part of their natural resources controlled by foreign interests.

4. It is widely discussed wich methods are suitable for the economic development of less developed countries. Not long ago many representatives coming from certain highly developed countries objected to industrialisation of the less developed countries, guided by the desire to preserve the present international division of labour. However, this viewpoint has become untenable in our days and industrialisation has been generally accepted as the only effective way for the development of less developed countries. At present it is generally recognized that it is industrialisation which renders possible the speedy increase of the national income and creates new possibilities for economic development. Industrialisation increases the rate of employment, creates new job opportunities and, as a result, promotes the growth of the purchasing power, the extension of the inner market. Last but not least, industrialisation when creating a differentiated economy helps liquidate the economic and political dependence of the developing countries.

5. All this should not be interpreted in a way as industrialisation ought to be considered as the only and exclusive remedy of underdevelopment. Beside industry other branches of the economy - agriculture, fishing, etc. - ought to be developed too. But this must be in organic interdependence with industrialisation. For instance, the intensive development of agriculture is hardly conceivable without a growing production of building materials, of some branches of mechanical engineering, of the chemical industry, and so on. And conversely: industrialisation is in many respects conditional on a differentiated development of the commodity production of agriculture, the growth of the purchasing power of the peasantry, etc. The economic life of a country should be viewed in its complexity, in its interconnections, industrialisation being considered as the main lever.

6. The absolute necessity of industrialisation itself does not determine which branch or branches of industry should practically be developed. It would be quite wrong to recommend for every country to develop equally all branches of industry. Such tendency of autarchy would leave out of consideration the advantages of international division of labour, would disperse the economic resources of the country, would renounce utilising the specifically favourable conditions of the different countries and would certainly not lead to a fast uprising of the economy. The local and specific situation, the international connections as well as all the

possibilities and conditions for industrialisation ought to be carefully considered individually in every country. As first task it should be established which factors might primarily influence the trend to be set for industrialisation. Some factors should be here mentioned.

a. Natural resources.

Generally it is practicable to develop those industries for which the raw materials can be found in the country or are relatively easy to procure in the framework of regional cooperation. For instance, the development of steel industry is suitable where coal and rich iron ore, or at least one of the two, are on the site. The same holds good in respect of non-ferrous metallurgy and - partly - of the chemical industry where, however, other factors too - such as electric energy - come into play. The existence of the sources of energy is also a decisive factor. Generally one or several of the different sources of energy - coal, oil, natural gas, hydraulic energy - are available in every country. For industrialisation it is absolutely necessary that the production of energy be in excess over the energy requirements of industry in the long run, too. This must be taken into consideration already in the first phase of industrialisation. Generally where raw material exists it is practical - beside the mining of raw materials - to organise the processing industry, such as metallurgy, founding, etc. This is reasonable because a less developed country may obtain more favourable prices with semi-finished and finished products than with raw materials. For instance: the price of one ton of bauxite on the world market is $ 6 to 7, while the price of one ton of aluminium is $ 430 to 500, i.e. 70 times as much. Oil, an important material of modern industry and communication, may be mentioned as well, though the prices of oil are not established exclusively by a free market. The difference between the prices of crude oil and finished products is immense. For this reason the effort of some less developed countries which are oil producers to develop oil-distilleries of their own is quite reasonable.

The increase of the rate of processing is also motivated by the fact that while the prices of ores and primary materials fall, the prices of finished products rise or are stationary. In any case the price trend of finished products does not deteriorate the terms of trade of a less developed country so much as does the price trend of raw materials. That may be illustrated by the following table:

Price trend in foreign trade

	1948	1960
Prices of primary products	100	91
Prices of manufactured products	100	116
The purchasing power of raw materials in manufactured goods	100	78

Source: World Economic Survey, 1956 and Monthly Bulletin of Statistics, 1961.

Of course, the development of processing, or manufacturing industry must be preceded by careful market-research if the greater part of the products goes to export.

Besides it must be stated that the stock-taking of the natural resources of a country and the fixing of the trend of development demands that the developing country should freely dispose of its natural resources. This is an inalienable right of every country. It is contrary to this basic principle that certain forces cling to the prerogatives acquired in the period of the colonial system. This situation ought to be liquidated, and every country should freely dispose of its natural resources. This is one of the fundamental requirements for the realisation of industrialisation.

b. The level of development of production is also an important factor in determining the line of industrialisation.

It must be taken into consideration which branches of industry exist in a country, whether or not their further development is reasonable, or with what and to which extent these branches can promote industrialisation, what accumulation they can ensure etc. The situation of agriculture, too, is essential from the point of view of commodity production, surplus labour, the demand for manufactured goods in the period of development, etc. It may happen that the industries processing the raw materials into semifinished or finished products should have priority in the first phase of industrialisation of various countries. However, it must be taken into consideration that in the case of many developing countries it might be not reasonable to satisfy the machinery requirements of the new branches of industry entirely from abroad. Therefore it might be advisable to develop some branches of engineering in the countries concerned. The same applies to certain branches of industry producing consumer goods, considering the rapid increase of demand for these goods even in an early period of industrialisation. The state of the network of communication, too, is a decisive factor. Though investments in the field of communication are very slowly reimbursed, they are indispensable for industrialisation, too. The trend and development of the network of communication can influence the settlement of the newly established industry. Infrastructure ought to be considered equally as many of its elements may determine the possibilities building up new industries.

c. The composition and level of domestic consumption.

A common experience of industrialisation is that the purchasing power and domestic consumption increase rapidly in consequence of a greater rate of employment. To ensure the former level of consumption and then to cope with the rapidly increasing new requirements in this respect cause mostly a considerable increase of imports. It seems reasonable to develop some branches of the light industry, the food industry, to ensure a many-sided commodity production of agriculture, in order to meet the needs in foodstuffs and other consumer goods from domestic sources.

d. The situation of labour.

Industrialisation requires more hands and many skilled workers. Therefore the labour situation in a country should be appraised not only as to the possibilities of securing the necessary labour force but also as to how many skilled workers, technicians, engineers

and economists are at disposal. The last categories are essential for the training of skilled and semiskilled workers. In perspective the aim should be full employment for the population. This is a task not for a few years. The assuring of the accommodation, provision and sanitary care of workers on the site of the industrial settlement should also be borne in mind.

e. Level and structure of foreign trade.

At an early stage of industrialisation there is a sudden increase in the import of goods for consumption as well as for investments. This raises immediately, of course, the problem of the balance of trade and payments. At the same time the radical and quick shift in the former structure of foreign trade causes serious troubles. For this reason it is important to practise stricter economy in imports, possibly to introduce the planning of foreign trade, or in any case, the control of imports. This requires, as a rule, the creation of a central organ which takes stock of the import needs and issues import permits on this basis. This is the only way of giving priority to goods necessary for industrialization and setting reasonable limits to the importation of less important goods. At the same time - according to established principles of economic development - steps must be taken towards gradual transformation of the structure of export in keeping with the possibilities of the country and the needs of the world market. This is, of course, connected with the differentiation and extension of the markets which, in the last analysis, helps lessen the one-sided economic dependence of the developing country.

7. The factors mentioned above prove unequivocally that the industrialisation of less developed countries is a complex task requiring immense financial means, an important staff of experts and efficient organisation. It is a novel task which calls for a radical transformation of the international division of labour. Especially the present relationship existing between western countries with highly developed industries, on the one hand, and economically less developed countries, on the other hand, should be altered. A considerable part of the industry of the former is based upon the raw materials and natural resources of the latter. Of course, in this problem immense interests are at stake. But today it is clear that the industrialisation of the developing countries is to the interest of the whole world, and the less developed countries ought to play a quite different role in world economy. Their independence must be assured in the economic sense too and this is of primary importance. Today it is not enough to acknowledge the importance of industrialisation in principle, practical deeds are necessary. And as the development of the economically less developed countries is a task to be undertaken in the interest of the whole world, a world-wide concerted action is necessary. For this aim not only a radical transformation of the division of labour between developed and less developed countries is needed, but also cooperation among all highly developed countries in this respect.

8. What has been said above is corroborated by the fact that the industrialisation of the developing countries requires immense investments, and the procuring of the money needed is a fundamental task. Both sources of investments, the domestic and the external ones play an important role in this respect. The mobilisation of both is indispensable for the realisation of effective industrialisa-

tion. The major part of the national income in less developed countries is derived from agriculture or extracting industries where the rate of accumulation is low. To increase accumulation deriving from agriculture is of high importance. One of its preliminary conditions is the realisation of a general land reform. By this means commodity production increases, labour becomes more productive, purchasing power of the agricultural population becomes greater, and finally the source of accumulation expands. The internal resources of accumulation may be increased by the prevention of the outflow of capital, the limitation of the profit withdrawals of foreign capital and several further steps to be taken in order to assure the profits, deriving from the countries' own natural resources and from the nations' own work to the purpose of its own development, and industrialisation. The employment of surplus labour resulting in the increase of purchasing power augments in different ways the domestic sources of accumulation, too.

9. To take the effective measures necessary for industrialisation requires an economic policy elaborated according to the specifical economic conditions of the country. It demands, on the other hand, the existence of certain organisational preconditions of the implementation of such an economic policy. Only the government can take stock of all the economic resources, coordinate and carry out the various measures. Therefore a basic condition for the implementation of a policy of industrialisation is the growth of the economic guiding role of the state. It is difficult to point out in a brief lecture all the domains where the state has a decisive role to play, all the levers by means of which the government can purposefully advance the realisation of industrialisation. Therefore I shall mention only a few of them.

10. The implementation of a policy of industrialisation presupposes that the trend of the flow of capital within the country as well as the whole financial and price system should be favourable to industrialisation. The price problem is very important in the phase of industrialisation, since the demand for commodities grows in consequence of the acceleration of economic development, and that again may lead to an increase in the prices and can easily start inflation. That alone demands that the government should pay particular attention to the questions of price control and, in the case of necessity, of fixing certain prices. The price policy is, however, important also because the state can, by a purposeful price and tax policy, effectually promote the development of such branches of industry which are in the foreground of the established plan of industrialisation. The elaboration and application of a customs policy to the aims of industrialisation are in some respect related to it. Imports may often be regulated in this manner, for instance, by levying low duties or no duties at all on the necessary goods and higher duties on less important goods, for instance, luxury articles. At the same time an increased custom protection should be extended to the existing industries, first and foremost, to those which may count for further development. The custom protection is justified in the case of developing young industries which, of course, could not compete with the well established big industries of many other countries. In many cases the application of export duties or government subsidies for promoting exports may be instrumental in changing the structure of exports, mainly when the products in question leave the country

not only in the form of raw materials, but semi-finished or finished goods, and the government can purposefully promote the exportation of the latter.

11. An equally important factor is the control of the credit system, or more precisely the realisation of a credit policy which serves entirely the aims of industrialisation. Only such a centrally directed credit policy is capable of concentrating the financial means on spheres which should be developed, while limiting, of course, utilization in all other spheres. All this is proved by experiences of countries which have made considerable progress in industrialisation.

12. All this presupposes that the government should draft such an economic plan for industrialisation which takes into account all available resources, covering the whole of economic life. Besides the plan for action which may guide the activity of the government and several government agencies for a relatively short period e.g. a year; plans for longer period are also needed. The latter are of a different, more general character, but certainly such perspective plans ought to be elaborated for the whole process of industrialisation, to make clear the general trend to be followed and the measures to be taken. This requires the government to have a state agency for the elaboration of such economic plans and for the coordination and control of their execution. To carry out the plans needs concerted action of government or better to say, needs all the powers at the disposal of the state. The active role of the state, that of the government in respect of economic policy will certainly increase considerably in the period of industrialisation - as many of the levers necessary to this end are, or can be disposed of only by the government. This stresses the special responsability of the state, and the countries' government for industrialisation.

13. All this is intended to ensure that the countries embarking on the road to industrialisation might exploit and concentrate their own resources to the maximum toward this aim. It is, however, well known that the domestic resources do not suffice - even in this case - to ensure the required tempo of industrialisation. At present the inner accumulation in developing countries amounts to - roughly - $ 11 billion and this would produce an increase of $ 4-5 billion by the afore-said methods. As in developing countries an 18 to 20 % investment quota of the national income would be reasonable - against the average of 12 % in highly developed capitalist countries, the investments can only partly be covered from domestic resources. Foreign credits, loans are necessary, too.

Utilization of foreign resources has so far created a situation in which foreign capital was mainly invested in the extracting industries, thereby preserving the one-sided character of the economy and increasing the economic dependence of the countries concerned. Foreign capital invested mostly in extractive branches of industry or agriculture, generally with high interest rates- and in the case of private capital - with a consequence of great outflow of profits - did not favour industrialisation, and in consequence did not alter the economic backwardness and dependence of the less developed countries. This does not refer to the financial means given by the socialist countries, which never took

the form of direct investments, but loans to the government with low interest rates generally to promote industrialisation and to strengthen the economic independence of the less developed countries. However, a considerable part of the credits from other sources place a great financial burden upon the recipient countries. This is one of the causes of the large and increasing indebtedness of the developing countries. The heavy repayment obligations diminish the possibilities of investment.

15. To promote the trend of industrialisation, it would be a favourable solution to make the foreign credits and loans available directly to the governments of the developing countries. These sources of investments could be utilized, on the basis of the government's economic policy and well considered plans, in spheres which are in the line of the established trend of economic development. As to the credit-terms, the particular circumstances of the recipient country and the domain of utilization of the credits should be taken into consideration. The repayment of credits is easier if the reimbursement of the given investment is taken carefully into consideration. As a matter of course, it is easier to begin repaying the long-term credits when the new industrial establishment built by means of credit has been put in operation. The mode of payment is also connected with this. For a developing country it is most reasonable to pay either with the products of the new plant or - with the usually exported goods. In case of big projects it may be reasonable for several countries to realise such projects in cooperation. This certainly presupposes the existence of international cooperation on a large scale. That is, a revaluation of the credit policies applied thi far is necessary. The right policy which should prevail in the field of credits, and international financial cooperation, should take fully into consideration the real interests of the less developed countries, advance their industrialisation, the differentiation of their economies as well as the consolidation of their economic and political independence.

16. International cooperation ought to be realised in other spheres as well with a view to the effective, quick and manysided development of the less developed countries. In these countries all specialists and skilled workers are not at hand, whose presence is indispensable for industrialisation. Many members of the skilled personnel are foreigners even at present in the existing factories. This problem cannot be solved overnight. The training of national - and it should be stressed - national specialists, engineers, and skilled workers ought to be speeded up. Obviously this too is to be reached only through a world-wide cooperation among nations.

17. Today it must also be considered that the structure of the world's trade is gradually changing in consequence of the development of less developed countries. In the export of developing countries the share of raw materials and foodstuffs will register a relative decrease, while the share of manufactured goods and finished products will increase. Now already the difficulty of the sale of manufactured goods is manifest in less developed countries. Therefore the safeguarding of markets for the products of the developing countries, especially for those of their young

industries, and at the same time the covering of their increasing import, deserve special attention. This complicated question can not be solved without making international surveys and coordinating the trade policies.

18. The industrialisation of economically less developed countries is a task which calls for a world-wide international cooperation. To study the experiences of rapid development, and especially problems of industralization may also be extremely useful on an international level. Industrialisation in Hungary in the last 15 years has been very swift. True, Hungary had industry before the war, too; but the rapid development of the last fifteen years raised many questions of industrialisation which are instructive also for countries where industrialisation is on a much lower level. The evaluation and publication of experiences is an important task of the United Nations. The transfer of experiences is, of course, always possible on a bilateral basis between the interested countries, but the UN could do here useful and manifold work.

19. The progress in the industrialisation of less developed countries is far from being satisfying. It must be realised at last that the solution of the question is pressing and quick action is needed. It must be recognized that international cooperation is badly needed for the realisation of industrialisation with the participation of all countries of the world.

A work of this sort on a suitable level and with suitable cooperation would in a brief time change the aspect of the world. It is feasible that the peoples living still in primitive conditions in the greater part of the world enter the 20th century in the full meaning of the word and enjoy all the advantages of technical and social progress.

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